

**Meeting summary**  
**“Budget Support: Good or bad for development?”**  
**A political debate on the merits and challenges of Budget**  
**Support, backed by evidence**  
**Wednesday 13th July 2011**  
**Residence Palace, Polak Room, Brussels, 14.00-16.30**

***Panellists:***

**Andris Piebalgs, European Commissioner for Development**

**Dr Samura Kamara, Minister of Finance, Sierra Leone**

**Dr Friedrich Kitschelt, Head of Directorate-General Africa, Global and Sectoral Affairs, Ministry of Economic Cooperation and Development, Germany**

**Helen Magombo, Policy Advisor on Aid Effectiveness, Oxfam**

***With presentations from:***

**Marcus Manuel, Senior Research Fellow and Director of the Budget Strengthening Initiative, Overseas Development Institute**

**Edward Mountfield, Manager, Country Economics, Operations Policy and Country Services, the World Bank**

***Chair:***

**Simon Maxwell CBE, Senior Research Associate, Overseas Development Institute**

The purpose of the meeting was to have an evidence based discussion on the relative benefits and challenges associated with the implementation of Budget Support in developing countries. The European Commission (EC) - one of the largest Budget Support providers - is in the process of revising its approach to Budget Support. An EC communication on the future of EU Budget Support is expected on 12<sup>th</sup> of October. Against this background this high level panel aimed to bring together a European audience (policy makers, academics, NGOs) to address some of the most pertinent questions surrounding the instrument's effectiveness, including the appropriate use of political conditionality, the achievement of development results, the ability to foster domestic accountability, and the mechanisms and criteria according to which Budget Support is allocated. In doing so the meeting talked to both the technical and political issues about Budget Support and its use.

**Natalia Alonso, Head of Oxfam's EU office**, opened the meeting emphasising that this is a critical moment for EU development policy, with a review under way and discussions starting on the next multiannual financial framework (2014-2020). **Simon Maxwell** framed the debate, acknowledging that once Budget Support was held as the 'miracle cure' but heavy criticism has weakened its support. Recognising that the problem was not going to be solved in the meeting, Simon still suggested that the debate should explore how we can preserve the best of Budget Support, without increasing the risks for ministers in both donor and partner countries. The task should be to preserve the best, reform the rest, and examine practical ways for doing long-term development support which is poverty and MDG focused.

## ***Speaker's presentations***

The meeting was chaired by Simon Maxwell and opened with presentations from **Marcus Manuel and Ed Mountfield**.

**Marcus Manuel** presented (power point presentation attached) evidence on the trends of Budget Support provision globally, recent evidence on its effectiveness and what he considered to be the current challenges; that of conditionality, better results and politics. Marcus started by clearly indicating that General Budget Support (GBS) has historically only been a small proportion of all aid flows to Less Developed Countries (excluding Sector Budget Support (SBS) and GBS from the World Bank); amounting to approximately less than 3% on average of all aid flows. In addition, there is considerable variation amongst donors in the provision of GBS, with donors such as the World Bank, EC, UK and Sweden allocating the largest proportions of their aid through such an instrument.

Marcus went on to explain the original rationale for Budget Support and how various evaluations have shown that Budget Support operations are associated with better outputs including improved allocation of resources, stronger public financial management systems, lower transaction costs and increased provision of public services. He also showed examples of the associations with better MDG outcomes and poverty reduction. However, proving causality has been difficult to achieve and challenges related to the lack of improved quality of service delivery exist.

Marcus then laid out what he considers to be the three main challenges related to Budget Support. He started by discussing conditionality – whether it has worked, where and why - then went on to discuss how Budget Support should be tailored to better achieve results and finally he touched on the political challenges associated with its implementation e.g. concerns with corruption, the upholding of human rights, the debate around recipient sovereignty. He noted that none of these debates were new, but were more important now.

Finally he suggested that there were five ways a stronger case for Budget Support could be made:

- recognise that there is a need for a mix of instruments, as they have their comparative advantages,
- be clearer on the primary purpose of the instrument,
- be more transparent,
- link aid to an exit strategy more explicitly,
- focus on the function and not the name of Budget Support type instruments.

In his presentation **Ed Mountfield** (power point presentations attached) laid out the role of Development Policy Lending (DPL) – the World Bank's current GBS instrument – in the Bank's operations. How DPLs are meant to achieve results, whether this has been working, and how the Bank can make the instrument work better. DPL is one of three instruments that are used by the Bank to support partner country's national and sectoral development programs as well as the Bank's Country Assistance Strategies. It sits alongside the newly developed Program for Results (P4R) instrument and investment lending. DPLs achieve results through substantive engagement on policy and institutional actions, which they disburse against. The nature of these actions have changed overtime, as the numbers have reduced and the actions have become increasingly focused on public sector governance, particularly PFM reforms, and social sectors.

Ed went on to show how the results of the recent Poverty Reduction Support Credits (PRSCs) evaluation demonstrated that PRSC countries (countries receiving the World Bank's form of Budget Support) had achieved faster poverty reduction and greater progress against the MDGs than their non-PRSC IDA counterparts. For example, In PRSC countries net primary school enrolment has increased by 14.8% between 2001 and 2006 compared to 9.1% in non-PRSC,

IDA countries. In addition, he showed that Bank DPLs perform as least as well as other Bank instruments.

Finally Ed suggested six ways DPLs (and GBS more broadly) could work better:

- donors shouldn't be afraid of engaging on policy and institutional reform,
- results management should continue to be strengthened,
- there should be greater effort to encourage transparency and participation,
- there should be increased attention to the fiduciary and macroeconomic underpinnings of the operations,
- multi-donor budget support should be encouraged,
- donors should continue to innovate when developing instruments and implementing them.

### ***High level panel and discussion with the audience***

**Commissioner Piebalgs** began by explaining frankly why he considers the European public to be less enthusiastic about Budget Support than the development community and as a consequence, why it might be under threat. First, according to the Commissioner, democracy and human rights matter in development operations and with the background of the Arab Spring, the EC is under increasing pressure to justify support to regimes that have chequered histories regarding their commitment for such underlying principles. Second, corruption is a key concern and unless the recipient country has clear-cut measures or a commitment to fight corruption donors should not provide Budget Support, as donors will be vulnerable to taxpayers' criticisms. Third, he raised concerns about the dependency of recipient countries on Budget Support and how this links with domestic resource mobilization. Fourth, related to the results agenda, he indicated that there is pressure for the effects of aid to be visible and traceable. This is more difficult to achieve with Budget Support as it forms part of the government's overall resource envelope.

Commissioner Piebalgs also indicated that the EU considers three elements when deciding the suitability of engaging in Budget Support in countries, related to the partner government's commitment for reforms, the capacity for macroeconomic stability and public finance management and mutual trust between both the EU and the partner government. Currently, there is greater attention from EU taxpayers on how development cooperation is being implemented and therefore greater pressure to ensure it is allocated appropriately.

Although Commissioner Piebalgs raised some of the challenges associated with Budget Support provision, he confirmed the EC's commitment to development cooperation and the instrument, illustrated by its proposal for the next financial framework for seven years. Later, in answer to a question about what the proportion of EC aid going to Budget Support would look like in 2016/7, he suggested that it would increase from its current amount at about 25 percent to 50 percent, as aid would increasingly be targeted to countries that happened to have Budget Support operations.

Despite this commitment, he said that donors and recipient governments need to have an honest conversation about macroeconomic stability and transparency. He noted that ending Budget Support operations prematurely had considerable consequences and was very difficult to do. Therefore frank discussions needed to be held prior to the start of such operations, as a high level of trust is required on both sides.

By holding evidence based events such as this once, he also emphasised the useful role organisations like Oxfam and ODI can have on Budget Support debates. Particular thanks were given to Oxfam for their work in this area.

**Dr Friedrich Kitschelt** welcomed the discussion on Budget Support and its reflections on experience over the last 10 years. He stated that Germany had always been amongst those giving Budget Support, but aware of its limitations. He began by stressing that aid should be

spent in the most efficient and effective way. In some contexts this can be achieved with Budget Support, but if so, as with all instruments, it needs to prove its efficiency and effectiveness. German policy is to examine an instrument in terms of its efficiency, effectiveness and impact. For this reason Dr Kitschelt suggested that there should be comprehensive changes to the way Budget Support is managed, including improving transparency and introducing stricter and more coordinated criteria on how and where to apply Budget Support.

In addition, more focus should be placed on "*reform-orientated countries*" and on countries that "*show an acceptable governance level*". These elements should go together and form the basis of a set of minimum standards which should be implemented. According to Dr Kitschelt development has always been value driven, so the debate is around whether you choose to make it implicit or explicit, rather than whether it exists at all.

He also indicated that Germany would welcome moves towards making Budget Support more results focused. He sympathised with the point made by the Commissioner, questioning how Germany can justify investing in Budget Support in environments that are particularly risky and where countries do not illustrate sufficient development orientation.

**Helen Magombo** drew on the previous presentations to highlight that Budget Support has achieved results. Despite recognising that the instrument is not without its difficulties, Oxfam promotes Budget Support and believes it should be taken forward especially when looking at the provision of basic social services in health and education. She suggested that attention should now focus on how the instrument can be improved – and not on decreasing its use - to bring the best outcome for both the partners and developing countries. For example through strengthening accountability by further involving civil society, the parliament and the role of the media. She suggested that DFID was leading the way in this area by committing to provide 5% of Budget Support operations to domestic accountability mechanisms.

When asked about Malawi, Helen Magombo said that Malawi started to receive Budget Support in 2001/02 and since then both GBS and SBS have facilitated the achievement of development outcomes. On recent decisions by some EU member states to cut Budget Support in Malawi, she explained that Oxfam's position is that Budget Support should not be cut overnight but that a discussion should be open with the government, civil society and parliament to remedy breaches of human rights or corruption. Only if that fails, should Budget Support be cut. If Budget Support is cut, it should be replaced by other aid modalities (project aid, basket funds etc) and donors should be careful that cutting Budget Support does not affect the poorest more than the government.

Responding to a question about her worst fear for Busan, Helen Magombo said it would be if Budget Support is not included as one of the key modalities going forward, given its importance for the aid effectiveness agenda.

**Dr Samura Kamara** suggested that the international aid architecture and geopolitics were driving the dialogue around Budget Support. He clearly indicated his support for the instrument, "*I, coming from Sierra Leone, certainly do believe in Budget Support and I think it should be continued – it has its own advantages and we have seen its advantages....*" and thought it didn't pose a systematic risk to either the international aid architecture or geopolitics.

However, he did suggest that "*.....perhaps there are a number of factors that are missing*". Budget Support partner and recipient countries have not sufficiently informed each other and their domestic constituencies that Budget Support has in fact been working and has led to results. Dr Kamara recognised the pressure that aid budgets are under in developed countries but said he strongly believes that if the development community come out and clearly explain the strong partnership that exists, problems can be resolved. For him it is question of donor relevance and legitimacy.

Dr Kamara also highlighted the fundability of other types of aid, which he suggested could also be perceived as providing support to the budget as they created (implicit) fiscal space for the government. He suggested that a comprehensive package of aid modalities is needed, which build on complementarities.

In response to a question about the predictability of aid, Dr Kamara acknowledged that aid volatility is a familiar issue in Sierra Leone and as a recipient country you have to understand that donor countries are also facing pressures at different times which affect aid provision.

Comments from the floor covered questions about whether political considerations should be linked to aid operations or addressed through different channels. The effectiveness of conditionalities was also touched on. There were mixed views on both points. A few people suggested that the question shouldn't be whether Budget Support is good or bad for development, but rather what mix of instruments is most appropriate in particular contexts. In addition some comments were raised on the current state of affairs in Malawi, following the recent cancellation of Budget Support operations by donors.

Finally the panel were asked what they would like media headlines to be when the Commission published its communication in October. The responses were Budget Support for results; EU takes Budget Support to Busan; EU should be more cautious about Budget Support, from Dr Kamara, Helen Magombo and Dr Kitschelt respectively.